



**Information Technology – POD  
Purchase Contract  
Audit No. A2013-11**

Issued by the  
Internal Audit Office  
January 22, 2014

***EXECUTIVE SUMMARY***

The Internal Audit Office has concluded its audit of the Information Technology Datacenters. Based on the results of the audit, two (2) findings have been identified. Both findings are considered significant in nature.

Listed below is a summary of the findings identified in this report:

1. A review of invoices issued for the purchase of equipment for the IT Datacenters was conducted. 3 out of 12 (25%) invoices reviewed listed items with prices and quantities that did not agree with the corresponding quote.
2. A review of equipment purchases for the Datacenters identified that assets over \$1,000.00 are inconsistently tagged and not added to the PeopleSoft Asset Management System (AMS).

For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

## ***BACKGROUND***

In 2010 Information Technology began the process of modernizing the City of El Paso’s server infrastructure. The City was in need of a modern and suitable Datacenter to house centralized IT equipment components which were housed in the basement of City Hall at the time. In December 2010, the City and County entered into an Interlocal Agreement for consolidation of management of the City and County Information Technology Department. The combined departments developed a strategy for disaster recovery which included the construction of a primary and backup Datacenter located in separate locations and shared by both entities:

- Municipal Service Center (MSC) Datacenter (Primary Datacenter) located at 7968 San Paulo Rd. The Performance Optimized Datacenter (POD) measures approximately 20 feet by 40 feet, in two units, along with specialized HVAC, fire suppression, back-up coolers and generators and other specialized computer requirements. Approximately 40% of the unoccupied rack space is leased by the City to County. According to the MSC Lease Agreement for County IT Operations, “The County will purchase significant County Equipment which it will locate at the Premises, at its sole cost and expense...”
- MDR Datacenter (Backup Datacenter) located on the 4<sup>th</sup> floor of the Momsen-Dunnegan-Ryan (MDR) Building located at 800 E. Overland. The 4<sup>th</sup> Floor of the MDR Building measures approximately 17 feet by 75 feet, or 1,275 square feet, with specialized HVAC, fire suppression, back-up coolers and generators and other specialized computer requirements.

As of June 12, 2013 an outlay of approximately \$10.6 million dollars has been made toward the Datacenters.

As a result, this audit was conducted in order to assure that funding appropriated for Datacenter purchases were spent appropriately for the intended purposes and that expenditures met management’s expectations.

## ***AUDIT OBJECTIVES***

The audit objectives for the Information Technology – POD Purchase Contract Audit are to:

1. Confirm that the procurement of various IT goods and services for the IT Datacenters are in compliance with local, state, and federal laws to include the:
  - City of El Paso Purchasing Policies and Procedures,
2. Determine if there are adequate controls and proper protocols for equipment purchases and expenditures for the IT Datacenters by identifying if purchases and expenditures:
  - Are appropriate,
  - Are properly authorized,
  - Are within applicable budgetary limits,
  - Are adequately monitored,

- Are properly tagged and inventoried in accordance with the City of El Paso Capital Assets Manual,
  - Contain proper documentation.
3. Identify City-paid County equipment that the City has not been reimbursed for.

**AUDIT SCOPE**

The audit period covered includes all related purchases for the IT Datacenters approved during the period of October 2010 to April 2013.

**AUDIT METHODOLOGY**

To achieve our audit objectives we:

- Conducted interviews with Information Technology staff,
- Reviewed a sample of equipment purchases and expenditures for the Datacenters to determine if:
  - Adequate controls are in place to ensure assets are properly tagged and inventoried and adequately safeguarded from damage and theft.
  - Proper protocols are adhered to in order to ensure expenditures are appropriate, properly authorized, within budgetary limits, adequately monitored, and contain proper documentation.
- Determined if the County has reimbursed the City for any and all City-paid County equipment.
- Confirmed that the procurement of various IT goods and services for the Datacenters are in compliance with local, state, and federal laws.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This audit was also conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

***SIGNIFICANT FINDINGS, RECOMMENDATIONS,  
AND MANAGEMENT’S RESPONSES***

The definition of a “Significant Finding” is one that has a material effect on the City of El Paso’s financial statements, identifies an internal control breakdown, a violation of a City procedure, or a violation of a law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as a “Regular Finding”.

**Finding: 1**

**Invoices Not Confirmed**

Per the City of El Paso Accounts Payable Manual Dated November 1, 2012 Sections:

- 6.5 *All invoices should be reviewed for compliance with approved agreement amounts and terms prior to payment. All invoices should follow the PO terms.*
  - 6.5.1 *The supervisor, or authorized official should review and sign off on the document to ensure that there is compliance with the contract or quoted prices.*
  
- 8.3 Approving an Encumbered Voucher
  - 8.3.1 *All invoices should be reviewed for compliance with quoted prices prior to payment.*
  - 8.3.2 *The supervisor or authorized official should review and sign off on the document to ensure that there is compliance with the contract or quoted prices.*
  - 8.3.3 *If an invoice does not have the price listed on the quotation, do not process payment until the issue is resolved.*

A review of 12 invoices issued during the period of October 26, 2010 through January 31, 2013 for the purchase of equipment for the IT Datacenters was conducted.

- 3 out of 12 (25%) invoices reviewed listed items with prices and quantities that did not agree with the invoice’s corresponding quote.
  - 2 invoices list different quantities than the quantities listed in the corresponding quotes. The total invoice cost did not exceed the total quoted cost and corresponding PO amounts.
  - 1 invoice listed the total price for an HP Starter Kit retailing at \$158,452.00. The corresponding quote itemized the quantity of the components of the Starter Kit but not the price per item. Determination could not be made from the invoice if all the agreed upon components were included.

**Recommendation:**

The Department of Information Technology Services should ensure that confirmation of quoted prices and quantities is conducted prior to payment of invoices.

**Management's Response:**

All invoices will be reviewed prior to payment, consistent with budgetary estimates, and detailed line itemization differentiating professional services and capital investment assets. The administrative team will review City of El Paso, Accounts Payable Manual with divisional and program managers. Departmental review will encompass reconciliation requirements, invoicing, and vendor payments adhering to the City of El Paso, Accounts Payable Manual Dated November 1, 2012.

**Responsible Party:**

Office of the Director Program (Enrique Martinez, Jr., Interim Director; Araceli Guerra, Assistant Director)

**Implementation Date:**

March 12, 2014 (30 days)

**Finding: 2**

**Tracking of Capital Assets**

Per the City of El Paso Capital Assets Manual dated April 2009:

- Section 5.2, Capital Assets over \$1,000 but under \$5,000: *Assets over \$1,000 but under \$5,000 that are purchased will be identified and assigned a numerical tag by PCS (Property Control Section). These items will be assigned to the user department and entered into the AMS (Asset Management System) for tracking purposes. It is the user department's responsibility to monitor, maintain and report any changes of location, department assignment or disposal of the items to PCS. On an annual basis, the PCS will perform an annual inventory.*

A review of equipment purchases for the Datacenters identified that assets over \$1,000.00 are inconsistently tagged and not added to the PeopleSoft Asset Management System (AMS).

During the course of the audit, an inventory was taken of the MDR Datacenter and the POD by the Department of Information Technology Services. The inventory was taken based on the size of the equipment and not the value of the assets. HP racks were inventoried and tagged with a listing of the number of blades contained within each rack. The majority of the racks contain sixteen (16) blades that retail approximately \$1,530.00 each.

**Recommendation:**

The Department of Information Technology Services should ensure that IT assets over \$1,000.00 are adequately tagged, tracked, monitored, maintained, and inventoried.

**Management's Response:**

DoITS will collaborate with Financial Services Department to review the asset valuation thresholds in accordance with the City of El Paso Capital Assets Manual. The required assets shall be maintained within the PeopleSoft Financials module. Through the procurement process, requisitions and vouchers will be flagged for addition or deletion to the departmental asset inventory. Additionally, our department will review and properly label all DoITS assets with the appropriate inventory modules. Specifically, the data centers equipment located at the MDR and POD will be inventoried adhering to City of El Paso policies.

**Responsible Party:**

Office of the Director Program (Enrique Martinez, Jr., Interim Director; Araceli Guerra, Assistant Director)

**Implementation Date:**

April 14, 2014 (60 days)

***INHERENT LIMITATIONS***

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

***CONCLUSION***

We have concluded work on the audit objectives of the Information Technology – POD Purchase Contract Audit. The audit evidence used in the analysis is sufficient and appropriate for addressing the objectives and supporting the findings and conclusion. In accordance with *Generally Accepted Government Auditing Standards* we are required to conclude on whether the Department of Information Technology Services met the objectives of this audit. Based on our audit work, we have determined the following:

1. The purchases and expenditures for the two IT Datacenters are:
  - a. Appropriate,
  - b. Within applicable budgetary limits,
  - c. Adequately monitored,
  - d. Contain proper documentation.
2. There is no evidence of any County assets paid for by the City of El Paso that have not been reimbursed for.

We have determined that the Department of Information Technology Services did not meet the objectives of the audit in the following areas:

1. There are not adequate controls and protocols for equipment purchases and expenditures for the IT Datacenters in:
  - o Confirming quoted prices and quantities prior to payment of invoices.
  - o Adequately tagging, tracking, monitoring, maintaining, and inventorying IT assets over \$1,000.00.

We wish to thank the management and staff of Department of Information Technology for their assistance and courtesies extended throughout this audit.

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*Signature on File*  
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**Distribution:**  
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